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Capital master plan: business analysis on the possibility of constructing a new permanent building on the North Lawn

Thirty-ninth report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report, in advance form, of the Secretary-General on the business analysis on the possibility of constructing a new permanent building on the North Lawn (A/60/874 of 5 June 2006). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional clarification and information.

2. The report was prepared in response to paragraph 7 of General Assembly resolution 60/256 of 8 May 2006, in which the Secretary-General was requested to present, by the second part of its resumed sixtieth session, a more detailed business analysis on the possibility of constructing a new permanent building on the North Lawn. The report sets forth an initial analysis which indicates long-term costs and advantages. In its previous report on the capital master plan (A/60/7/Add.12), the Committee indicated that, while it saw merit in strategy IV as recommended by the Secretary-General, it was of the opinion that the General Assembly should be provided with a more comprehensive analysis of all options, in particular of strategy III.

II. Background information

3. Consultancy services were retained, free of charge, to estimate the costs for two possible scenarios for the construction of a new permanent building on the North Lawn: (a) for an estimated occupancy date of 2015; and (b) for an estimated occupancy date of 2023, which is the expiry date of the long-term lease agreements

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between the United Nations and the United Nations Development Corporation (UNDC) for the UNDC-1 and UNDC-2 buildings (see A/60/874, para. 3).

4. In paragraph 7 of his report, the Secretary-General details the 15 office and non-office (archiving and warehousing) locations, totalling 1,667,000 square feet, which are currently leased in New York by United Nations entities. It is foreseen that, should a new permanent building be constructed on the North Lawn, entities currently using leased space in the UNDC-1, UNDC-2 and FF buildings would be accommodated within its 900,000 square feet projected available space. The resulting lease-cost avoidance calculation presented in paragraphs 10 to 17 of the report of the Secretary-General uses, as a baseline, assumptions on future rent costs for the UNDC-1, UNDC-2 and FF buildings. This calculation is presented on (a) a nominal basis and (b) a net present value basis which assumes a 5 per cent rate to discount future cash flows to their present values (see table 2 below for further details).

5. The Committee points out that one of the assumptions used in the preparation of the business analysis is that "the proposed new permanent building on the North Lawn is regarded as part of the long-term direction of the United Nations system in New York and is not being considered for temporary occupancy by Secretariat staff during the capital master plan renovation (i.e., as a swing space building)" (A/60/874, para. 5 (a)). In this connection, the Committee was informed that use of the North Lawn for swing space would result in further delays for implementation of the capital master plan.

III. Financial costs and intangible factors not yet considered

6. The Secretary-General indicates in paragraph 18 of his report that the following issues have not been factored into the business analysis: (a) security issues; (b) architectural issues; and (c) host city and community issues. The Advisory Committee was informed that preliminary inquiries had been made with regard to those three sets of issues but that the relevant conclusions had neither been further analysed nor quantified at this stage of the process.

7. The Secretary-General states in his report that "the analysis on the potential benefits of a proposed permanent building on the North Lawn indicates that there would be commercial advantages for the United Nations derived from constructing and owning a building as compared to long-term leasing based on the assumptions contained in paragraph 5" of his report (A/60/874, para. 19).

8. With regard to security arrangements for a new building on the North Lawn, the Committee was informed that discussions had been held with the Department of Safety and Security. It was agreed that security measures would be developed if and when the building were to be completed, and the tenants and their security needs determined. The Advisory Committee notes that a building on the North Lawn would be located within the perimeter of the United Nations compound.

9. With regard to architectural issues, the Committee recalls paragraph 12 of its report of 5 December 2005 on the capital master plan (A/60/7/Add.12). Upon enquiry, the Committee was informed that the Assistant Secretary-General for the capital master plan had met, at the invitation of the Government of Brazil, with Mr. Oscar Niemeyer, the sole surviving architect of the United Nations compound,

who had expressed the view that a permanent building on the North Lawn would alter the architectural integrity of the original design of the United Nations Headquarters site.

10. With regard to host city and community issues, the Advisory Committee was informed that unofficial contact had been made with municipal authorities and the local community and that care would be taken to initiate a formal dialogue should the proposal be approved.

IV. Financial cost factors considered

A. Costs of the proposed feasibility study

11. Upon enquiry, the Advisory Committee was provided with an estimated cost breakdown of the comprehensive feasibility study for the possible construction of a permanent building on the North Lawn (see table 1 below). The Committee was informed that it was estimated that a pre-construction feasibility study would take a total of 16 months to complete, including 4 months for project mobilization. However, the estimated error factor was +/- 25 per cent; therefore, the time frame and costs associated with the feasibility study could increase or decrease by 25 per cent.

Table 1
Estimated cost breakdown of the proposed feasibility study
(United States dollars)

Architectural and engineering services	1 800 000
Planning and consulting fees	850 000
Survey test borings	450 000
Cost estimating fees	150 000
Legal and organizational costs	1 000 000
Administration and management costs	550 000
Contingency costs (10 per cent)	480 000
Total	**5 280 000**

B. Calculation of construction and related costs

12. A summary of the costs and related time frames of the proposal to construct a permanent structure on the North Lawn is provided in table 2 below.

Table 2
Summary of costs and related time frames

	Option 1 Occupancy in 2015	*Option 2 Occupancy in 2023*
Total project cost[a]	$627 000 000	$939 000 000
Avoided lease costs (UNDC-1, UNDC-2 and FF buildings)[b]	$255 000 000	$0
Balance of capital costs[c]	$372 000 000	$939 000 000
Projected annual avoided lease costs	$60 000 000	$67 000 000
Years to break even with the balance of capital costs	6.2 years	14 years
Break-even period — nominal basis	14.2 years[d]	14 years[e]
Break-even period — net present value basis (5 per cent discount rate)	21.1 years	21.3 years

[a] Rounded figures and inclusive of construction, contingencies, professional fees, management costs and escalation for the respective options.

[b] 2015 occupancy (option 1): avoided lease cost for the period 2015-2023; 2023 occupancy (option 2): avoided lease cost for the period 2023-2037.

[c] The balance of capital costs for 2015 occupancy (option 1) of $372,000,000 is calculated by deducting the avoided lease cost ($255,000,000), i.e., the final eight-year lease period 2015-2023, from the total project cost of $627,000,000; for 2023 occupancy (option 2), the balance of capital costs is the full cost of the project ($939,000,000).

[d] The break-even period for option 1 is the total of the eight-year lease period 2015-2023 plus the period of 6.2 years required to recover the balance of capital costs, i.e. 14.2 years.

[e] The break-even period for option 2 is the total project cost of $939,000,000 divided by the average annual lease cost of $67,000,000 for the period 2023-2037 (as there would not be any avoided lease cost prior to 2023).

V. Conclusions and recommendations of the Committee

13. **As recommended in the summary of the Secretary-General's report, the matter of a permanent building on the North Lawn should be considered independently from the renovation of the United Nations Headquarters building, given the urgency of that renovation. The Advisory Committee agrees that the two issues are not linked. The concept of a building on the North Lawn to consolidate office space is an issue separate from the renovation of United Nations premises, and the report of the Secretary-General raises well-founded concerns about the merit and feasibility of building on the North Lawn, even given the advantages referred to in paragraph 7 above. The Committee stresses the need to move forward with the renovation as a matter of priority. The conduct of a feasibility study is not merited at this stage as it would lead to unwarranted costs for Member States and would detract from the focus that the renovation project requires from the Secretariat. The Advisory Committee therefore recommends that the General Assembly approve the recommendations contained in paragraphs 22 (a), (b) and (c) of the Secretary-General's report.**